Supreme Court, U.S.
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No._____

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

AVANT! CORPORATION, GERALD HSU, MITSURU IGUSA, AND CHIH-LIANG CHENG,

Petitioners,

v.

CADENCE DESIGN SYSTEMS, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

---

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Does federal copyright law eliminate the traditional equitable principle that a plaintiff may be denied preliminary injunctive relief if a district court finds that an adequate legal remedy is available?

PARTIES

All parties appear in the caption of the case on the cover page.

Avant! Corporation (pronounced ah-VAHN-tee) is incorporated in Delaware. Avant! was formed in 1995 by the merger of ArcSys, Incorporated, a Delaware corporation, and Integrated Silicon Systems, Incorporated, a North Carolina corporation. Avant! has no parent company or non-wholly-owned subsidiaries.

TABLE OF CONTENTS

QUESTION PRESENTED i

PARTIES ii

OPINIONS BELOW 1

JURISDICTION 2

STATUTORY PROVISION INVOLVED 2

STATEMENT OF THE CASE 3

REASONS FOR GRANTING THE PETITION .. 7

I. THE NINTH CIRCUIT'S NEW LEGAL RULE PROHIBITING DISTRICT COURTS FROM APPLYING TRADITIONAL EQUITABLE PRINCIPLES IN COPYRIGHT CASES CREATES A SPLIT AMONG THE CIRCUITS. 8

II. THE CIRCUIT SPLIT CREATED BY THE NINTH CIRCUIT'S OPINION IN THIS CASE PRESENTS AN ISSUE OF NATIONAL IMPORTANCE ON WHICH THIS COURT HAS NOT RULED. 14

CONCLUSION 17

INDEX OF APPENDICES 1a

TABLE OF AUTHORITIES

CASES

Abend v. MCA, Inc.,
863 F.2d 1465 (9th Cir. 1988),
aff'd sub nom., Stewart v. Abend,
495 U.S. 207 (1990) 5

American Fabrics Co.
v. Lace Art, Inc.,
291 F. Supp. 589 (S.D.N.Y. 1968) 13

American Metro. Enters.
v. Warner Bros. Records,
389 F.2d 903 (2d Cir. 1968) 10

Apple Computer, Inc.
v. Franklin Computer Corp.,
714 F.2d 1240 (3d Cir. 1983),
cert. dismissed, 464 U.S. 1033 (1984) 11

Atari, Inc. v. North Am. Philips
Consumer Electronics Corp.,
672 F.2d 607 (7th Cir.),
cert. denied, 459 U.S. 880 (1982) 11

Belushi v. Woodward,
598 F. Supp. 36 (D.D.C. 1984) 13

Bonaparte v. Camden & A.R. Co.,
3 Fed. Cas. 821 (C.C.D.N.J. 1830) 9

Cadence Design Systems, Inc.
v. Avant! Corp., 125 F.3d 824
(9th Cir. Sept. 23, 1997) 1

Chappell & Co. v. Fields,
210 F. 864 (2d Cir. 1914) 12

Concrete Mach. Co. v. Classic Lawn
Ornaments, Inc.,
843 F.2d 600 (1st Cir. 1988) 11

Country Kids 'N City Slicks, Inc.
v. Sheen, 77 F.3d 1280 (10th Cir. 1996) 11

Dymo Indus., Inc. v. Tapeprinter, Inc.,
326 F.2d 141 (9th Cir. 1964) 8

Forry, Inc. v. Neundorfer, Inc.,
837 F.2d 259 (6th Cir. 1988) 11

Friends for All Children, Inc.
v. Lockheed Aircraft Corp.,
746 F.2d 816 (D.C. Cir. 1984) 10

Hasbro Bradley, Inc.
v. Sparkle Toys, Inc.,
780 F.2d 189 (2d Cir. 1985) 11

Kamakazi Corp. v. Robbins Music Corp.,
534 F. Supp. 57 (S.D.N.Y. 1981) 13

Lotus Development Corp. v.
Borland Int'l, Inc.,
49 F.3d 807 (1st Cir. 1995),
aff'd, 116 S. Ct. 804 (1996) 16

LucasArts Entertainment Co.
v. Humongous Entertainment Co.,
815 F. Supp. 332 (N.D. Cal. 1993) 13

Marisa Christina, Inc.
v. Bernard Chaus, Inc.,
808 F. Supp. 356 (S.D.N.Y. 1992) 12, 13

National Bd. of Young Men's Christian
Ass'ns v. Flint Young Men's Christian
Ass'n, 764 F.2d 199 (6th Cir. 1985) 9

New Era Publications Int'l, APS
v. Henry Holt, Co.,
884 F.2d 659 (2d Cir. 1989) 11

O'Shea v. Littleton,
414 U.S. 488 (1974) 9

Plains Cotton Coop. Ass'n
v. Goodpasture Computer Serv., Inc.,
807 F.2d 1256 (5th Cir.),
cert. denied, 484 U.S. 821 (1987) 11

Service & Training, Inc.
v. Data Gen. Corp.,
963 F.2d 680 (4th Cir. 1992) 11

Sierra Club v. United States Forest
Serv., 843 F.2d 1190 (9th Cir. 1988) 9

Walt Disney Prods. v. Basmajian,
600 F. Supp. 439 (S.D.N.Y. 1984) 13

CONSTITUTIONAL PROVISIONS AND STATUTES

17 U.S.C. § 502 . . . . . 2, 10

28 U.S.C. § 1254(1) 2

28 U.S.C. § 1331 2

H.R. Rep. No. 94-1476 (1976),
reprinted in 1976 U.S.C.C.A.N. 5659 10

U.S. Const. Art. I, sec. 8 14

IN THE SUPREME COURT

OF THE UNITED STATES

OCTOBER TERM, 1997

AVANT! CORPORATION, GERALD HSU, MITSURU IGUSA, AND CHIH-LIANG CHENG,
Petitioners,

v.

CADENCE DESIGN SYSTEMS, INC., *Respondent.*

ON PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

Avant! Corporation ("Avant!") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Ninth Circuit in this case.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit, which reversed the decision of the district court, is reported as Cadence Design Systems, Inc. v. Avant! Corp., et al., 125 F.3d 824 (9th Cir. Sept. 23, 1997), and is reproduced in Appendix A. The March 18, 1997 order of the United States District Court for the Northern District of California, which denied the preliminary injunction motion, is not reported. The order is reproduced in Appendix B.

JURISDICTION

The opinion below was filed on September 23, 1997. The Ninth Circuit denied Avant!'s petition for rehearing and suggestion for rehearing en banc on November 21, 1997. See Appendix D. The Ninth Circuit entered its judgment following denial of rehearing on December 1, 1997. See Appendix C.

Respondent first invoked federal court jurisdiction in the case under 28 U.S.C. § 1331. Petitioner now invokes the jurisdiction of this Court under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Title 17 U.S.C. § 502 provides:

> (a) Any court having jurisdiction of a civil action arising under this title may, subject to the provisions of section 1498 of title 28, grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain infringement of a copyright.
>
> (b) Any such injunction may be served anywhere in the United States on the person enjoined; it shall be operative throughout the United States and shall be enforceable, by proceedings in contempt or otherwise, by any United States court having jurisdiction of that person. The clerk of the court granting the injunction shall, when requested by another court in which enforcement of the injunction is sought, transmit promptly to the other court a certified

copy of all the papers in the case on file in such clerk's office.

STATEMENT OF THE CASE

Avant! and respondent, Cadence Design Systems, Inc. ("Cadence"), compete in the development and marketing of extremely complex software programs used to design integrated circuits, generally known as "computer chips." Cadence brought this action against Avant! in December 1995, claiming, among other things, that Avant!'s ArcCell software products infringed Cadence's copyrights.

Fifteen months after the action was filed, the district court denied Cadence's motion for a preliminary injunction against Avant!'s ArcCell products. See Appendix B. The district court's opinion rested on a detailed analysis, conducted with the assistance of an independent expert, of an immense and highly technical record. The district court held that Cadence had not shown that it was likely to succeed on its claims against the high-level application code in ArcCell that "places" (i.e., determines the location) and "routes" (i.e., connects) the millions of transistors on an integrated circuit. App. B at 40a-41a.

The district court found, however, evidence in ArcCell of "some" copying with respect to low-level code that supports the place and route application code. App. B at 39a. Because Cadence had established a likelihood of success with regard to its copyright claim concerning that low-level code, the district court held that Cadence was entitled to a presumption of irreparable harm. App. B at 38a.

Relying on well-established copyright law, the district court noted that the presumption of irreparable harm was rebuttable. The district court held that it was not required to find that Cadence would suffer irreparable injury if the presumption were overcome by a showing, under traditional principles of equitable relief, that Cadence had an adequate legal remedy for its alleged injury. App. B at 38a.

With regard to Cadence's claims of injury, the district court made several factual findings. The district court determined that there was no risk that third parties would ever see the allegedly copied material; the evidence of the alleged copying was found in ArcCell's source code that is not distributed to customers.[1] App. B at 38a. The district court further found that Cadence's claims of lost sales of products and services would be compensable through an award of money damages. App. B at 38a, 40a.

Having determined that the availability of an adequate legal remedy rebutted the presumption of irreparable harm, the district court turned to the balance of hardships. The court found that an injunction would threaten Avant!'s very existence by depriving it of any return on the substantial investment it had made in the software that was not implicated by the evidence of copying. App.

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[1] "Source code" refers to computer code written in a specialized language comprehensible to computer programmers. Source code is compiled into object code, binary expressions that a computer can read. Software products are typically reduced to object code and sold in a medium such as magnetic tape or a computer disk.

B at 38a. On the other hand, the court found that Cadence's alleged injuries arising from any infringement of the low-level code was compensable through an award of money damages. App. B at 38a, 40a. Accordingly, the district court declined to issue a preliminary injunction against ArcCell. App. B at 40a.

Cadence appealed the decision denying the preliminary injunction to the Ninth Circuit Court of Appeals. In an opinion written by District Court Judge Dean Pregerson sitting by designation, the Ninth Circuit reversed the district court's decision. See Appendix A. The Ninth Circuit announced, as a new general rule, that "the adequacy of money damages" can never "rebut the presumption of irreparable harm that flows from a showing of likelihood of success on the merits of a copyright infringement claim." App. A at 10a-13a.

In reversing the district court, the Ninth Circuit acknowledged that no prior case had held that the presumption of irreparable harm could not be rebutted by a finding that an adequate legal remedy was available. App. A at 11a. Indeed, a previous Ninth Circuit panel had denied injunctive relief in a copyright case because, among other reasons, the plaintiff could "be compensated adequately for the infringement by monetary compensation." Abend v. MCA, Inc., 863 F.2d 1465, 1479-80 (9th Cir. 1988), aff'd sub nom., Stewart v. Abend, 495 U.S. 207 (1990).

In its opinion, the Ninth Circuit noted that the Fifth Circuit has held that a copyright plaintiff is not entitled to a presumption of irreparable harm and that a defendant may defeat a preliminary injunction motion by showing

the adequacy of money damages. App. A at 12a. Other than this general reference to the Fifth Circuit, however, the Ninth Circuit failed to address the decisions from other circuits that contradict its holding.

The Ninth Circuit instructed the district court on remand to enjoin further sales of Avant!'s ArcCell products. App. A at 18a. With respect to another Avant! product, Aquarius, the Ninth Circuit ordered the district court to "determine whether the Aquarius software infringes Cadence's code. If so, the district court shall enter an order enjoining the sale of the software." App. A at 22a. This directive was issued despite the fact that no court had yet analyzed how the traditional preliminary injunction standards applied to this separate product, which was not the subject of Cadence's initial preliminary injunction motion.

On October 7, 1997, Avant! filed a timely petition for rehearing and suggestion for rehearing en banc. In the petition, Avant! urged the Ninth Circuit to modify its opinion and to leave to the district court the fact-intensive role of balancing the various factors that determine whether an injunction should issue. Avant! argued that, in holding that a district court can never find that the availability of money damages rebuts the presumption of irreparable harm in copyright cases, the Ninth Circuit's opinion conflicts with the decisions of other federal courts.

The Ninth Circuit denied the petition for rehearing and suggestion for rehearing en banc on November 21, 1997. See Appendix D. The judgment of the Ninth Circuit following the denial of rehearing was issued on December 1, 1997. See Appendix C.

REASONS FOR GRANTING THE PETITION

By establishing a new rule for copyright law, the Ninth Circuit's opinion creates a serious split among the circuits. The opinion marks an important departure from the fundamental equitable principle that a plaintiff is not entitled to preliminary injunctive relief if an adequate legal remedy is available.

In copyright cases, many courts have recognized a presumption of irreparable harm that arises from a plaintiff's demonstration of likely success on the merits. This presumption, however, merely excuses the plaintiff from the usual requirement of showing that legal remedies are inadequate, and thereby shifts to the defendant the burden of proving that an adequate legal remedy is available.

Until the Ninth Circuit's opinion in this case, no court had held that the presumption of irreparable injury could not be rebutted by the availability of an adequate legal remedy. And no court had ever intimated that the presumption prevails against a district court's finding that the evidence demonstrates the availability of money damages. To the contrary, every other circuit court of appeals that has considered the issue has held that federal copyright law does not supplant the traditional equitable principles that govern a district court's decision to grant or deny preliminary injunctive relief.

Under the Ninth Circuit's holding in this case, district courts may no longer consider whether the availability of damages in a particular case rebuts the presumption of irreparable harm. As a result, copyright law will be

administered differently in the courts of the Ninth Circuit than in the courts of all other federal circuits. If undisturbed, the Ninth Circuit's opinion will constrain the ability of federal courts to use traditional equitable discretion in fashioning interim relief for claims of copyright infringement involving complex, emerging technologies. This important question has not been, but should be, settled by this Court to ensure uniform application of federal law throughout the country.

I. THE NINTH CIRCUIT'S NEW LEGAL RULE PROHIBITING DISTRICT COURTS FROM APPLYING TRADITIONAL EQUITABLE PRINCIPLES IN COPYRIGHT CASES CREATES A SPLIT AMONG THE CIRCUITS.

The Ninth Circuit has held in this case that a district court may not, in the exercise of its equitable jurisdiction, deny preliminary injunctive relief in a copyright case because of the availability of an adequate legal remedy. This new rule conflicts with basic principles of equity jurisprudence and with the settled law of every other circuit that has considered the issue.

Federal courts have long held that the "grant of a preliminary injunction is the exercise of a very far reaching power never to be indulged in except in a case clearly warranting it." Dymo Indus., Inc. v. Tapeprinter, Inc., 326 F.2d 141, 143 (9th Cir. 1964). The limitations on the exercise of this power are deeply rooted in principles of equity. In an early landmark case on federal equitable jurisdiction, Justice Baldwin observed:

> There is no power the exercise of which is more delicate, which requires greater caution, deliberation, and sound discretion, or more dangerous in a doubtful case, than the issuing [of] an injunction; it is the strong arm of equity, that never ought to be extended unless to cases of great injury, where courts of law cannot afford an adequate or commensurate remedy in damages.

Bonaparte v. Camden & A.R. Co., 3 Fed. Cas. 821 (C.C.D.N.J. 1830).

Because of the drastic nature of preliminary injunctive relief, a fundamental principle of equity prohibits such relief if a legal remedy is adequate. This Court has "reaffirm[ed] the basic doctrine of equity jurisprudence that courts of equity should not act . . . when the moving party has an adequate remedy at law." O'Shea v. Littleton, 414 U.S. 488, 499 (1974) (internal quotations omitted). Thus, the essential predicate for preliminary injunctive relief is the trial court's factual determination that the plaintiff will suffer irreparable harm in the absence of such extraordinary relief.[2]

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[2] Irreparable injury is a factual issue. See, e.g., Sierra Club v. United States Forest Serv., 843 F.2d 1190, 1191 (9th Cir. 1988) (reviewing "factual showing of irreparable injury"); National Bd. of Young Men's Christian Ass'ns v. Flint Young Men's Christian Ass'n, 764 F.2d 199, 201 (6th Cir. 1985) (irreparable injury is an "essentially factual issue[]"); Friends for All Children, Inc. v. Lockheed

The Copyright Act does not authorize a departure from the fundamental principles governing equitable relief. The statute authorizing injunctions in copyright cases, 17 U.S.C. § 502, expressly preserves the courts' discretion by providing that a court "may . . . grant temporary and final injunctions." (Emphasis added). The statute recodifies an earlier provision, 17 U.S.C. § 112, which stated that an injunction could be granted "according to the course and principles of courts of equity." See H.R. Rep. No. 94-1476, at 160 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5776.

Because of Congress's clear intent, every court of appeals that has considered the question -- until the Ninth Circuit in this case -- has held that the equitable principles underlying injunctive relief apply with equal force in copyright law. As the Second Circuit has noted:

> The Copyright Act expressly preserves the traditional doctrines of equity when one seeks equitable remedies in a copyright action. . . . The existence of an adequate legal remedy traditionally bars a plaintiff from equitable relief.

American Metro. Enters. v. Warner Bros. Records, 389 F.2d 903, 905 (2d Cir. 1968). As Judge Minor has observed, "All now agree that injunction is not the automatic consequence of infringement and that equitable considerations always are germane to the determination of whether an injunction is appropriate." New Era

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Aircraft Corp., 746 F.2d 816, 836 n.39 (D.C. Cir. 1984) (irreparable injury is factual finding).

Publications Int'l, APS v. Henry Holt, Co., 884 F.2d 659, 661 (2d Cir. 1989) (Miner, J., concurring) (emphasis added).

Consistent with the congressional history of the Copyright Act and established principles of equity, the Fifth Circuit has squarely held that a plaintiff is not entitled to an injunction in a copyright case -- even if the plaintiff establishes a "substantial likelihood of success on the merits" -- if the harm from any alleged infringement is "compensable in damages." Plains Cotton Coop. Ass'n v. Goodpasture Computer Serv., Inc., 807 F.2d 1256, 1259, 1261 (5th Cir.), cert. denied, 484 U.S. 821 (1987). Under the Fifth Circuit's approach, a plaintiff must carry the traditional burden of showing both a likelihood of success and the inadequacy of legal remedies to compensate for the claimed injury.

Other circuits have adopted a rule in copyright cases that a presumption of irreparable injury arises once a plaintiff establishes a likelihood of success on the merits. See, e.g., Country Kids 'N City Slicks, Inc. v. Sheen, 77 F.3d 1280, 1288-89 (10th Cir. 1996); Service & Training, Inc. v. Data Gen. Corp., 963 F.2d 680, 690 (4th Cir. 1992); Concrete Mach. Co. v. Classic Lawn Ornaments, Inc., 843 F.2d 600, 611 (1st Cir. 1988); Forry, Inc. v. Neundorfer, Inc., 837 F.2d 259, 267 (6th Cir. 1988); Hasbro Bradley, Inc. v. Sparkle Toys, Inc., 780 F.2d 189, 192 (2d Cir. 1985); Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1254 (3d Cir. 1983), cert. dismissed, 464 U.S. 1033 (1984); Atari, Inc. v. North Am. Philips Consumer Electronics Corp., 672 F.2d 607, 620 (7th Cir.), cert. denied, 459 U.S. 880 (1982).

The presumption of irreparable harm finds no support in the Copyright Act or in this Court's decisions. The presumption of irreparable harm originated in cases involving literary works, in which an author's right to control whether, when, how and to whom a work is presented may not be adequately remedied by a damages award.[3]

Among the courts recognizing the presumption, no court had held -- until the Ninth Circuit in this case -- that an injunction could issue notwithstanding the availability of an adequate legal remedy. The courts uniformly treated the presumption as rebuttable: it eliminates the plaintiff's normal burden of showing irreparable injury and permits the court to conclude, absent evidence to the contrary, that the plaintiff will suffer such harm unless a preliminary injunction is granted. If the defendant demonstrates to the satisfaction of the district court that money damages will fully compensate the plaintiff, the "presumption, like any presumption, falls." Marisa Christina, Inc. v. Bernard Chaus, Inc., 808 F. Supp. 356, 359 (S.D.N.Y. 1992).

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[3] The earliest case cited as applying the presumption is Chappell & Co. v. Fields, 210 F. 864 (2d Cir. 1914), in which the court enjoined the defendants from appropriating a copyrighted musical comedy scene. The court noted that preliminary injunctions are "granted more readily in dramatic than in other cases because the delay involved in waiting for a final decree would generally amount to a denial of justice." Id. at 866.

Courts have denied injunctions in a wide variety of copyright cases on the grounds that the plaintiff could be fully compensated by damages. See, e.g., Walt Disney Prods. v. Basmajian, 600 F. Supp. 439, 441 (S.D.N.Y. 1984) (injunction denied because "the damage [plaintiff] seeks to avert is one that can be calculated in dollars and cents. Those are not damages requiring equitable relief but mere legal damages . . . ."); Belushi v. Woodward, 598 F. Supp. 36, 37 (D.D.C. 1984) (copyright plaintiff "must demonstrate that equitable relief is warranted. If a legal remedy will adequately compensate for any infringement, then injury, if any, is not irreparable."); Kamakazi Corp. v. Robbins Music Corp., 534 F. Supp. 57, 68 (S.D.N.Y. 1981) (injunction denied in part because evidence at hearing did not "sufficiently rule out the possibility of money damages being determinable"); American Fabrics Co. v. Lace Art, Inc., 291 F. Supp. 589 (S.D.N.Y. 1968) (plaintiff required to show irreparable injury and absence of adequate remedy at law); see also LucasArts Entertainment Co. v. Humongous Entertainment Co., 815 F. Supp. 332, 338 (N.D. Cal. 1993) (denying injunction in part because "any loss in profits would be compensable with money damages"); Marisa Christina, 808 F. Supp. at 360 (injunction denied despite finding of likely success on the merits because defendant no longer sold allegedly infringing product and "plaintiff can be fully compensated through damages").

In contrast with the decisions recognizing a rebuttable presumption, the Ninth Circuit in this case has created a presumption that is irrebuttable against any showing of the availability of an adequate legal remedy. In so doing, the Ninth Circuit has abandoned the basic principle that

a court must not issue preliminary injunctive relief unless there is no adequate remedy at law. The Ninth Circuit's new rule represents an extraordinary departure from the approach taken by courts in all other circuits.

II. THE CIRCUIT SPLIT CREATED BY THE NINTH CIRCUIT'S OPINION IN THIS CASE PRESENTS AN ISSUE OF NATIONAL IMPORTANCE ON WHICH THIS COURT HAS NOT RULED.

In an economy increasingly dominated by computer-based technologies, copyright law has assumed a role and importance that could never have been foreseen when the framers of the Constitution authorized Congress to secure to authors "the exclusive Right to their respective Writings." U.S. Const. Art. I, sec. 8. Copyright law now protects new and rapidly changing forms of industrial capital on which a company's survival may depend. There is a great need for national uniformity and consistency in the application of copyright law to protect investment and serve the greater public good of advancing the arts and sciences.

In light of the broad importance of copyright, it would appear unsound to establish a rule that prohibits a district court from considering the nature of an injury caused by a claimed infringement when that court is determining whether to issue the drastic, and sometimes commercially fatal, relief of a preliminary injunction. Such a rule would be particularly inappropriate where, as in this case, there is an ascertainable market value associated with the limited infringement.

The Ninth Circuit's new rule prohibits a district court, regardless of the facts of a particular case, from denying a preliminary injunction because the availability of money damages rebuts the presumption of irreparable harm. Under this rule, no defendant can rebut the presumption by showing that an adequate legal remedy is available. As the Ninth Circuit states in its opinion:

> The district court's conclusion [that the harms alleged by Cadence were not irreparable] was erroneous. Avant! could not, and therefore did not, rebut the presumption of irreparable harm by presenting evidence that Cadence's damages seemed to be quantifiable.

App. A at 14a (emphasis added, internal quotations omitted).

In so holding, the Ninth Circuit has taken from the district courts their traditional discretionary function of making the factual determination of whether a plaintiff will suffer irreparable injury in the absence of a preliminary injunction. In the Ninth Circuit, a basic principle of equity will no longer govern the preliminary injunction analysis in copyright cases. The district courts of the Ninth Circuit will now operate under a standard remarkably different from that followed by the district courts of all other circuits.

Perhaps more importantly, the Ninth Circuit's new rule will significantly constrain the ability of federal courts to fashion appropriate forms of equitable relief in cases of new and emerging technologies. The development of copyright doctrines for new technologies has been marked

by an adaptive, case-by-case approach. Lotus Development Corp. v. Borland Int'l, Inc., 49 F.3d 807, 819-20 (1st Cir. 1995) (Boudin, J., concurring), aff'd, 116 S. Ct. 804 (1996). By contrast, the Ninth Circuit's opinion in this case imposes a harsh new rule, founded on a presumption created in an entirely different context, that prohibits the consideration of the facts of a particular case.

Because the Ninth Circuit's decision is contrary to fundamental principles of equity jurisprudence, conflicts with the settled law of most other circuits, and decides an important question of federal law that has not been, but should be, settled by the Supreme Court, Avant!'s petition for writ of certiorari should be granted.

CONCLUSION

For all of the foregoing reasons, the petition for writ of certiorari should be granted.

Respectfully submitted,

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February 19, 1998

Appendix

INDEX OF APPENDICES

Appendix A	Decision of the Ninth Circuit Court of Appeals	2a
Appendix B	Decision of the United States District Court for the Northern District of California	23a
Appendix C	Judgment of the Ninth Circuit Court of Appeals	44a
Appendix D	Order Denying Petition for Rehearing and Suggestion for Rehearing En Banc	46a

APPENDIX A

Decision of the Ninth Circuit Court of Appeals
Filed September 23, 1997

FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

CADENCE DESIGN SYSTEMS, INC., a Delaware corporation. Plaintiff-Appellant, v. AVANT! CORPORATION, formerly ARCSYS, INC., a Delaware corporation; GERALD HSU, an individual; MITSURU IGUSA, an individual; and CHIH-LIANG CHENG, an individual. Defendants-Appellees	No. 97-15571 D.C. No. CV-95-20828-RMW (PVT) OPINION

Appeal from the United States District Court
for the Northern District of California
Ronald M. Whyte, District Judge, Presiding
Argued and Submitted
August 12, 1977--San Francisco, California
Filed September 23, 1997
Before: Alfred T. Goodwin and Sidney R. Thomas,
Circuit Judges, Dean D. Pregerson,* District Judge.
Opinion by Judge Dean Pregerson

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* The Honorable Dean D. Pregerson, United States District Judge for the Central District of California, sitting by designation.

SUMMARY

Intellectual Property/Computers and Technology

The court of appeals reversed an order of the district court. The court held that a copyright infringement defendant cannot rebut the presumption of irreparable harm, based on a finding of plaintiff's likely success on the merits, by showing the adequacy of money damages.

In the field of "place and route" computer software, appellant Cadence Design Systems, Inc. and appellee Avant! Corporation are competitors. Cadence sued Avant! for theft of its copyrighted and trade secret computer source code, and sought a preliminary injunction.

Following the commencement of the litigation, Avant! undertook a "clean room" process by removing the allegedly infringing portions of the code identified by Cadence. After this, Avant!'s engineers created "Aquarius," a new and purportedly sanitized code, without access to Cadence's software.

The district court granted Cadence's motion for a preliminary injunction in part and denied it in part, prohibiting Avant! from employing certain source code that it was no longer using. The court determined that Cadence had established that its source code was protected by copyright and trade-secret law; that Avant! used some of Cadence's code in its ArcCell products, thereby infringing Cadence's copyright; and that Cadence was

likely to prevail on the merits of its claim that Avant!'s clean room procedures were inadequate.

In denying Cadence's motion as to Avant!'s use of Cadence's software in its ArcCell and Aquarius products, the district court accepted Avant!'s argument that it had rebutted the presumption of irreparable harm, raised by the court's finding that Cadence was likely to prevail on the merits, by showing that monetary damages were an adequate remedy.

The court also accepted Avant!'s assertion that as a new company, its ability to survive would be seriously jeopardized because the infringing software accounted for 60 percent of its business. The court also found that the harms alleged by Cadence--lost sales and an inability to reposition itself in the market--were either quantifiable or speculative. Based on these findings, the court concluded that the balance of harms tilted in favor of Avant! Cadence appealed.

[1] The district court erred by finding that Avant! rebutted the presumption of irreparable injury. [2] A defendant cannot, by asserting the adequacy of money damages, rebut the presumption of irreparable harm that flows from a finding of likelihood of success on the merits of a copyright infringement claim. [3] The alleged availability of money damages is not a reason to deny injunctive relief. [4] If Avant!'s argument were to have prevailed, the presumption of irreparable harm would have little meaning in commercial settings.

[5] Some courts have found the presumption rebutted when the plaintiff's copyrighted item is no longer on the

market--a factor not present in this case. [6] Some courts have held that undue delay by the plaintiff can rebut the presumption--but this was another factor not at issue in this appeal. [7] One could argue that the presumption is rebutted when the plaintiff has not been harmed, when any harm is de minimis, or when the defendant acted with innocent intent, relying on lack of copyright notice. However, the district court did not base its decision on these possible findings. [8] Avant! was not an innocent infringer, and the district court found that an injunction would not result in harm to the public.

[9] The district court committed further error by finding that the balance of the hardships tilted heavily in Avant!'s favor. [10] A defendant who knowingly infringes another's copyright cannot complain of the harm that will befall it when properly forced to desist from its infringing activities. Such an argument merits little equitable consideration.

[11] Even if Avant!'s software used only five percent of Cadence's copyrighted code, the district court made no findings concerning the proportion of infringing and non-infringing material in Avant!'s software, and did not draw any conclusions that relied on this fact.

[12] The balance of the hardships issue cannot be accorded significant--if any--weight in determining whether a court should enter a preliminary injunction in cases where the plaintiff has made a strong showing of likely success on the merits. Cadence established that it was likely to succeed on the merits of its copyright claim.

[13] The district court did not state whether its finding that Avant!'s clean room procedures were inadequate related to Cadence's copyright infringement claim, or to it trade secrets claim. [14] Ultimately, the court concluded that there was insufficient evidence to enjoin the production or sale of Aquarius software to the extent that they contained essentially the same source code as did Avant!'s prior products. [15] The court's conclusion was erroneous. If the Aquarius software infringed Cadence's copyright, the court should have entered an order preliminarily enjoining Avant! from selling the software.

[16] There were no findings on which to base a conclusion that Avant! violated Cadence's copyright and Cadence did not appeal the trade secrets aspects of the district court's order. On remand, the district court would have to determine whether the Aquarius software infringed Cadence's code.

COUNSEL

Jeffrey R. Chanin, Ragesh K. Tangri, Keker & Van Nest, San Francisco, California, for the plaintiff-appellant.

George A. Riley, O'Melveny & Myers, San Francisco, California, for defendant-appellee Avant! Corporation.

OPINION

D. PREGERSON, District Judge:

Cadence Design Systems, Inc. ("Cadence") brought suit against Avant! Corporation ("Avant!") (pronounced Ah VAN tee) for copyright infringement and misappropriation of trade secrets. Cadence appealed the district court's partial denial of its motion for preliminary injunction. Cadence asserts that the district court erred (1) by failing to enjoin Avant! from using copyrighted computer code after the district court found that Cadence was likely to succeed on the merits of its copyright claim and (2) by failing to enjoin Avant! from selling modified software products created to replace the infringing software products. For the following reasons, we reverse the district court's decision and remand.

Background

Cadence and Avant! compete in the field of "place and route" software.[1] On December 6, 1995, Cadence sued Avant! for theft of its copyrighted and trade secret

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[1] Place and route software is used to design integrated circuits, i.e., computer chips. The software is designed to place the thousands (sometimes, millions) of tiny transistors that comprise the chip and "route" (or, connect) the transistors to other transistors. The parties' software automates and optimizes the process of placing and routing the transistors.

computer source code[2] and notified Avant! and the district court that it intended to file a motion for preliminary injunction.[3] Cadence asserts that Avant! incorporated wholesale portions of Cadence's copyrighted source code in Avant!'s ArcCell and ArcCell XO software products ("ArcCell products" or "ArcCell software"). The copied portions of Cadence's code allegedly came into Avant!'s possession by way of several employees who left Cadence to work for Avant!. Cadence also asserts that Avant! paid Cadence employees to provide valuable information about Cadence's software products.

After Cadence filed this action, Avant! undertook a "clean room process where it attempted to remove the allegedly infringing portions of code. Avant! hired an independent expert to examine the portions of infringing

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[2] Computer programs are written in specialized languages (e.g., PASCAL, COBOL) called source code. The source code, which humans can read, is then translated into a form that computers can "read." The computer readable form, which operates on a binary system, is called object code.

[3] This was not Cadence and Avant!'s first dispute. In early 1994, Cadence drafted a complaint alleging, *inter alia*, trade secret misappropriation after its Vice President, Gerald Hsu, left Cadence to work for Avant!. The parties settled this matter in a June 6, 1994 settlement agreement. The agreement prohibited Hsu from working for Avant! until July 1994 and provided for a mutual general release of any existing claims related to Hsu's employment by Avant!. The district court found that the release did not resolve the parties' 1995 federal court dispute.

source code identified by Cadence. The expert then created specifications based on the Cadence code from which Avant! could write original code to take the place of the infringing code. Finally, Avant!'s engineers, allegedly operating without access to the Cadence code (hence the term "clean room"), created new code to replace the copied code. Avant!'s modified software is called Aquarius.

Due to the highly technical issues involved in the case, several months passed before the district court, with the aid of an independent expert, granted in part and denied in part Cadence's motion for preliminary injunction. The district court made the following findings: (1) that Cadence had established that its source code was protected by copyright and by trade secret law; (2) that Avant! used some of Cadence's code in its ArcCell products, thereby infringing Cadence's copyright; and (3) that Cadence will likely prevail on its claim that Avant!'s clean room procedures were inadequate.

The district court enjoined Avant! from using certain source code, in part because Avant! no longer used the code in its software and thus an injunction would not harm Avant!. The district court declined to enjoin the use of other source code because Cadence failed to make a sufficient showing of success on the merits. Finally, the court declined to enjoin Avant!'s use of Cadence's source code in Avant!'s ArcCell and Aquarius products. The court declined to enjoin the sale of the ArcCell and Aquarius products because it found that the balance of harm tilted in favor of Avant! and that money damages were an adequate remedy for any harm to Cadence.

Cadence argues on appeal that the district court abused its discretion by failing to enjoin the ArcCell and Aquarius products. Cadence asserts that the district court was obligated to enjoin the sale of the products once the court determined that Cadence was likely to succeed on the merits of its copyright claim.

Discussion

I. *Standard of Review.*

A plaintiff seeking preliminary injunctive relief must demonstrate "either a likelihood of success on the merits and the possibility of irreparable injury[ ] or that serious questions going to the merits were raised and the balance of hardships tips sharply in its favor." *Sega Enterprises Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1517 (9th Cir. 1992).

A district court's preliminary injunction order will be reversed only if the district court abused its discretion or based its decision on an erroneous legal standard or on clearly erroneous findings of fact. *See Triad Sys. Corp. v. Southeastern Express Co.*, 64 F.3d 1330, 1334 (9th Cir. 1995); *Sega*, 977 F.2d at 1517.

II. *The District Court Erred by Failing to Enjoin Sale of Avant!'s ArcCell and ArcCell XO Products.*

A. *The District Court Erred by Finding that Avant! Had Rebutted the Presumption of Irreparable Injury.*

[1] The district court recognized that a presumption of irreparable injury arises if the plaintiff is able to show a likelihood of success on the merits of its copyright infringement claim. The district court erred, however, by

finding that Avant! had rebutted the presumption of irreparable injury.

1. *A copyright infringement defendant cannot rebut the presumption of irreparable harm by showing that money damages are adequate.*

Cadence asserts that the district court erred because "it is well settled that the availability of money damages does not rebut the presumption of irreparable harm in copyright cases." Cadence cites several appeals court decisions for support, including: *Triad*, 64 F.3d at 1335 (holding that the presumption of irreparable harm supported the district court's preliminary injunction order); *Johnson Controls, Inc. v. Phoenix Control Sys., Inc.*, 886 F.2d 1173, 1174 (9th Cir. 1989) (same); *Apple Computer, Inc. v. Franklin Computer Corp.*, 714 F.2d 1240, 1254 (3d Cir. 1983) (holding that the district court erred when it failed to consider the presumption of irreparable harm); and *Atari, Inc. v. North Am. Philips Consumer Elecs. Corp.*, 672 F.2d 607, 620-21 (7th Cir. 1982) (reversing the district court's finding of non-infringement and directing the district court to enter a preliminary injunction based upon the presumption of irreparable harm).

[2] None of the decisions cited by Cadence directly hold that a defendant cannot rebut the presumption of irreparable harm by showing the adequacy of money damages. In *Triad* and *Johnson Controls*, for example, we addressed cases where the presumption supported the district court's grant of a preliminary injunction. However, implicit in our prior decisions, as well as those of other federal courts of appeals, is the rule that a defendant cannot, by asserting the adequacy of money

damages, rebut the presumption of irreparable harm[4] that flows from a showing of likelihood of success on the merits of a copyright infringement claim.[5]

In *Triad*, the defendant argued that any damages that the plaintiff suffered as a result of the defendant's infringement were monetary damages from lost revenues, and thus since monetary damages are not usually considered irreparable harm, the defendant asserted that it should not have been enjoined. *Triad*, 64 F.3d at 1335. Affirming the district court's preliminary injunction order, we acknowledged the general validity of the defendant's contention, but held that "[i]n a copyright infringement action, however, the rules are somewhat different." In copyright infringement actions there is a presumption of irreparable harm and thus the plaintiff "need only show a reasonable likelihood of success on its copyright infringement claim to support the district court's grant of the preliminary injunction." *Id.*

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[4] In the Fifth Circuit there is no presumption of irreparable harm in copyright infringement cases, and thus in the Fifth Circuit, a copyright defendant can prevail by showing the adequacy of money damages. The Fifth Circuit is the only court of appeals that does not apply the presumption of irreparable harm. *See Concrete Mach. Co. v. Classic Lawn Ornaments, Inc.*, 843 F.2d 600, 612 n.12 (1st Cir. 1988) (noting that the Fifth Circuit is the only circuit that does not apply the presumption).

[5] There are ways to rebut the presumption of irreparable harm other than by showing the adequacy of monetary relief. These means are discussed below.

[3] We rejected the defendant's argument that monetary damages were adequate as a matter of law -- we did not review the district court's factual findings for clear error. The implication of this resolution is that the alleged availability of money damages is not a reason to deny injunctive relief. *See also Johnson Controls*, 886 F.2d at 1174 (holding that as a result of the presumption of irreparable harm; the plaintiff "need only show a reasonable likelihood of success on its copyright infringement claim to support the district court's grant of the preliminary injunction").

Commentator Nimmer supports this result. Nimmer writes that if a plaintiff establishes a likelihood of success on the merits of a copyright infringement claim, "it would seem erroneous to deny a preliminary injunction simply because actual damages can be precisely calculated . . . ." 4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.06[A], at 14-105 (1997); *see also American Direct Mktg., Inc. v. Azad Int'l, Inc.*, 783 F.Supp. 84, 96 (E.D.N.Y 1992) (noting that in the Second and Ninth Circuits, "a finding of likelihood of success on the merits automatically triggers a preliminary injunction, and failure to issue one is reversible error if the validity of the copyright and existence of copying are not at issue"); *Concrete Mach. Co.*, 843 F.2d at 612 (discussing the presumption of irreparable harm and stating that "[t]here is . . . no need actually to prove irreparable harm when seeking an injunction against copyright infringement").

2. *The district court erroneously permitted Avant! to rebut the presumption of irreparable harm.*

Here, Avant! argued in opposition to Cadence's preliminary injunction motion that Cadence could not establish irreparable harm because the harms alleged by Cadence (e.g., lost sales and an inability to reposition itself as a service-oriented company) either were not irreparable or were speculative.

From these facts, the district court concluded that Avant! had rebutted the presumption of irreparable injury. The district court's sole statement of its findings was: "Cadence's claim of lost sales of other products and services would seem to be quantifiable. Other claims of loss of reputation or position would appear to be somewhat speculative, particularly given Cadence's established position in the marketplace." *Cadence Design Sys., Inc. v. Avant!, Inc.*, No. C95-20828, at 10 (N.D. Cal. Mar. 19, 1997).

[4] The district court's conclusion was erroneous. Avant! could not, and therefore did not, rebut the presumption of irreparable harm by presenting evidence that Cadence's damages "seem[ed] to be quantifiable."[6]

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[6] In addition, although the ability to determine Cadence's damages is a factual question not at issue on this appeal, one wonders how Cadence could prove how many sales it lost because of the presence of Avant!'s infringing software. *See Budish v. Gordon*, 784 F.Supp. 1320, 1337 (N.D. Ohio 1992) (finding that if the defendant was not enjoined from selling infringing books, there would be no reasonable manner for the plaintiff to prove how many sales he

Avant!'s argument, which the district court accepted, was no different than the argument made by the defendant in *Triad* and the argument that could be made in most cases of copyright infringement that involve a copyrighted commercial work.[7] If this argument were to prevail, the presumption of irreparable harm would have little meaning in commercial settings.[8]

[5] Avant! did cite decisions where a copyright defendant rebutted the presumption of irreparable harm.[9]

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lost due to the defendant's competing books).

[7] For example, in *Atari*, the court applied the presumption of irreparable harm even though the plaintiff and the defendant were both corporations marketing video games and the loss was a loss of sales caused by competition from the defendant's infringing game. 672 F.2d at 620. The court even discussed the specific amount of money the plaintiff had invested to develop the game and specific sales figures, yet the court never suggested that the circumstances permitted the defendant to rebut the presumption of irreparable injury. *Id.*

[8] We further note that if the defendant is using copyrighted material owned by the plaintiff and a court awards damages instead of enjoining such use, the court has, in essence, made the plaintiff an involuntary licensor of its copyrighted material. The defendant can then use the copyrighted material to compete with the plaintiff.

[9] In addition to arguing that monetary damages suffice to rebut the presumption of irreparable harm, Avant! asserts that we can uphold the district court's decision to deny Cadence's motion for preliminary injunction because the

These decisions, however, are readily distinguishable. For example, some courts have found the presumption rebutted when the plaintiff's copyrighted item is no longer on the market -- a factor not present in the case on appeal. *See, e.g., Marisa Christina, Inc. v. Bernard Chaus, Inc.*, 808 F.Supp. 356, 360 (S.D.N.Y. 1992); *LucasArts Entertainment Co. v. Humongous Entertainment Co.*, 815 F. Supp. 332, 337 (N.D. Cal. 1993) (finding no likelihood of success but noting that even if the plaintiff had established a likelihood of success, the court would have denied a preliminary injunction because the plaintiff's product and the defendant's product did not compete).

[6] Some courts have held that undue delay by the plaintiff can rebut the presumption -- but this is another factor not at issue in this appeal. *See, e.g., Richard Feiner & Co. v. Turner Entertainment Co.*, 98 F.3d 33, 35 (2d Cir. 1996).

[7] One could also argue that the presumption is rebutted where the plaintiff has not been harmed, where any harm is *de minimis*, or where the defendant acted with innocent intent, relying on lack of copyright notice. *See*

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district court never found that Cadence was likely to succeed on the merits of its copyright infringement claim. Avant! asserts that the district court found that Avant! copied some of Cadence's code, but that the district court did not necessarily find that Avant! copied *protected* portions of Cadence's code. Avant!'s argument is belied by a reading of the district court opinion, which found that Cadence had established a likelihood of success on its copyright infringement claim.

4 Nimmer, *supra*, § 13.03[F][5], at 13-145; cf. *Belushi v. Woodward*, 598 F.Supp. 36, 37 (D.D.C. 1984) (denying injunction where one photograph in the defendant's book infringed the plaintiff's copyright). Here, however, the district court did not base it decision on any of these possible findings.

Avant! engaged in an extensive discussion of our opinion in *Abend v. MCA, Inc.*, 863 F.2d 1465 (9th Cir. 1988), *aff'd sub nom., Stewart v. Abend*, 495 U.S. 207 (1990), but that decision is also easily distinguished. In *Abend*, the author of several short stories owned the statutory copyrights for the works. The author assigned his right to motion picture versions of one of the stories to a production company. The author also agreed to renew the copyright for the story and to assign the same motion picture rights to the company. The author died without renewing the copyright, and the right to renew passed to the author's trust, which renewed the copyright at the appropriate time. Because an assignee of renewal rights take only an expectancy, and because the author died before the copyright was renewed, the defendants did not receive the renewal motion picture rights. Accordingly, the plaintiff (the author's trust's assignee) brought a copyright infringement suit against the defendants for distributing the motion picture during the renewal term.

We upheld the district court's decision to not preliminarily enjoin the defendant. We quoted *Nimmer on Copyright* for the proposition that "'where great public injury would be worked by an injunction, the courts might . . . award damages or a continuing royalty instead of an injunction in such special circumstances.'" *Abend*, 863

F.2d at 1479 (alteration in original) (quoting 3 Melville B.Nimmer, *Nimmer on Copyright* § 14.06[B], at 14-56.2 (1988)). We found that special circumstances existed in *Abend* because: the defendant had done nothing improper but had simply lost the right to the short story on a "technicality" existing under the Copyright Act of 1909; an injunction would have prohibited the defendant from enjoying profits from its own creative efforts (i.e., creating the motion picture from the short story); and the public would be denied the opportunity to review a classic film. *Id.* at 1478-79.

[8] *Abend* is distinguishable from the case on appeal. Here, Avant! deliberately copied Cadence's code. Avant! was not an innocent infringer that believed that it had purchased the right to use Cadence's copyrighted work. Moreover, the district court found that an injunction would not result in harm to the public. Finally, the district court made no finding that there were special circumstances militating against an injunction -- it merely held that monetary damages rebutted the presumption of irreparable harm.

Accordingly, we reverse the district court's order. On remand, the district court shall issue an order enjoining sale of the ArcCell products.

B. *The District Court Erred by Giving Improper Emphasis to the Harm that an Injunction Would Cause Avant!.*

[9] The district court committed further error by finding that the balance of hardships "tilt[ed] heavily in Avant!'s favor." Specifically, the district court found that

the infringing software accounted for 60% of Avant!'s income and that a preliminary injunction would "seriously jeopardize Avant!'s ability to survive as a relatively new company which invested significant time and resources in the development of its products prior to the time that Cadence initiated its lawsuit." *Cadence Design Sys.*, at 10.

[10] In this circuit, as well as other circuits, a defendant who knowingly infringes another's copyright "cannot complain of the harm that will befall it when properly forced to desist from its infringing activities." *Triad*, 64 F.3d at 1338. In *Triad*, we affirmed the district court's order enjoining the defendant from servicing certain of the plaintiff's computers, rejecting the defendant's argument that the inability to service the plaintiff's computers should cause it to suffer extreme harm. We quoted *Concrete Mach. Co.*, 843 F.2d at 612, for the proposition that "[w]here the only hardship that the defendant will suffer is lost profits from an activity which has been shown likely to be infringing, such an argument in defense 'merits little equitable consideration [on an appeal from a preliminary injunction.]'" *Triad*, 64 F.3d at 1338 (alteration in original); *see also University City Studios, Inc. v. Sony Corp. of Am.*, 659 F.2d 963, 976 (9th Cir. 1981) (noting that once the court has determined that there is infringement, "the continued profitability of appellees' business is of secondary concern"), *rev'd on other grounds*, 464 U.S. 417 (1984); *Apple Computer*, 714 F.2d at 1255 (reversing a district court order that considered the harm to a knowing infringer); *Atari*, 672 F.2d at 620 (finding that the balance of hardships did not weigh against entry of a preliminary injunction where the only alleged hardship to the defendant was the loss of profits from market-

ing the infringing work); *Helen Curtis Indus. v. Church & Dwight Co.*, 560 F.2d 1325, 1333 (7th Cir. 1977) ("Advantages built upon a deliberately plagiarized make-up do not seem to us to give the borrower any standing to complain that his vested interests will be disturbed.") (internal quotation marks omitted); 4 Nimmer, *supra*, § 14.06[A] at 14-130 (nothing that the balance of hardships factor is not usually invoked in copyright cases).

[11] One might contend that the language used in the decisions cited above leaves room to argue that the balance of hardships should be considered if the defendant's original contribution is substantial, the infringing portion of the defendant's work is minimal, and any damages to the plaintiff are minor. Here, Avant! asserts that at most its software used only 5% of Cadence's copyrighted code. However, even if this fact could support the district court's decision to give greater weight to the balance of harm analysis than would otherwise be proper, the district court made no findings concerning the proportion of infringing and non-infringing material in Avant!'s software and did not draw any conclusions that relied on this fact.

[12] Therefore, the balance of hardships issue cannot be accorded significant -- if any -- weight in determining whether a court should enter a preliminary injunction to prevent the use of infringing material in cases where, as here, the plaintiff has made a strong showing of likely success on the merits. The balance of hardships factor may assume significance in cases where the plaintiff has not established a strong likelihood of success on the merits, but here Cadence established that it was likely to

succeed on the merits of its copyright claim. The district court appears to have been strongly influenced by the fact that an injunction would be devastating to Avant!'s business, which we hold to be error warranting reversal of the district court's decision.

III. *The District Court Erred by Assuming that an Injunction Would be Improper Even if the Aquarius Software Infringed Cadence's Copyrighted Source Code.*

[13] The district court concluded that Cadence was likely to prevail on its claim that Avant!'s clean room procedures were inadequate. *Cadence Design Sys.*, at 11. The district court did not state, however, whether its findings related to Cadence's copyright infringement claim or to Cadence's misappropriation of trade secrets claim.

Specifically, the court found that Avant!'s use of an independent expert to examine portions of code identified by Cadence as infringing and rewrite or delete any potentially infringing code in the Aquarius software "d[id] not appear to have been sufficient" because Avant! was able to take advantage of its knowledge of the functions and the basic structure of the Cadence code. *Id.* In addition, the district court expressly made no finding as to whether the Aquarius software contained code copied from Cadence. The district court did not state whether any conduct occurring within the clean room process infringed Cadence's copyright (e.g., intermediate copying of the Cadence code during the process of creating the Aquarius code).

[14] Ultimately, the district court concluded that there was insufficient evidence to enjoin the production or sale

of the Aquarius software "to the extent that they contain essentially the same source codes as do Avant!'s prior products." *Id.* at 13.

[15] The district court's conclusion was erroneous. If the Aquarius software infringes Cadence's copyright, the district court should have entered an order preliminarily enjoining Avant! from selling the software.

[16] Cadence asserts on appeal that the district court should have preliminarily enjoined Avant!'s use of the replacement code "because Avant! violated Cadence's copyrights and misappropriated Cadence's trade secrets to create the replacement code." However, as stated above, there are no findings upon which we could base a conclusion that Avant! violated Cadence's copyright, and Cadence did not appeal the trade secret aspects of the district court's order. On remand, the district court will have to determine whether the Aquarius software infringes Cadence's code. If so, the district court shall enter an order enjoining the sale of the software.

Reversed and Remanded.

APPENDIX B
Decision of the District Court
Filed March 18, 1997

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

CADENCE DESIGN SYSTEMS, INC.	)	NO. C 95-20828 RMW (PVT)
Plaintiff,	)	ORDER GRANTING IN PART AND DENYING IN PART PLAINTIFF'S MOTION FOR A PRELIMINARY INJUNCTION **(REDACTED COPY)**
v.	)	
AVANT!, INC., et al.,	)	
Defendants.	)	

Plaintiff's motion for a preliminary injunction pursuant to Federal Rule of Civil Procedure 65 was heard on September 10, 1996. The court has read all papers submitted both before and after the hearing,[1] listened to the oral argument of the parties and considered the input of its technical expert. For the reasons set forth below, the court grants in part and denies in part plaintiff's motion for a preliminary injunction.

[1] In light of the supplemental briefing which was allowed, the court does not strike any argument or brief filed.

I. BACKGROUND

Cadence Design Systems, Inc. ("Cadence") and Avant! Corporation ("Avant!") compete in the field of integrated circuit design automation ("ICDA"). Both companies design complex place and route software, which is the subject of this action. Cadence was formed in 1988 and Avant!, originally known as ArcSys, was formed in 1991. In 1991, four senior Cadence employees decided to leave Cadence to form their own company. The four employees founded ArcSys which, following a merger with another company, became Avant!.[2]

In early 1994, Cadence Vice President Gerald Hsu ("Hsu") decided to leave Cadence and go work for Avant!. Cadence objected to Hsu's going to work for Avant! because of information Hsu possessed which had been used to compete with Avant!. Because of Hsu's alleged possession of valuable trade secrets and other confidential information, Cadence informed Hsu and Avant! that it objected to Hsu's going to work for Avant!. Cadence subsequently sent Avant!'s attorneys a draft complaint naming Avant! and Hsu as defendants which alleged trade secret misappropriation and other causes of action and threatened to file the complaint if some agreement could not be reached.

Following lengthy negotiations, on June 6, 1994, the parties entered a confidential settlement agreement ("Agreement") which included a mutual general release.

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[2] Avant! will hereinafter be used to refer to both ArcSys and Avant!.

The Agreement provided that Hsu would not begin working at Avant! before July 5, 1994 and would have no contact with any person affiliated with Avant!. The Agreement further provided that Avant! would not solicit or employ any Cadence employee before December 31, 1994 ("hands-off period"). The Agreement also contained "Mutual General Releases" which provided:

> Cadence, [Avant!] and Hsu . . . hereby forever release and discharge each other . . . of and from any and all manner of action, claim or cause of action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liabilities, demands, losses, damages, costs or expenses, including without limitation court costs and attorneys' fees, which they may have against each other at the time of the execution of this Agreement, known or unknown, including but not limited to any claims arising out of, or in connection with, or relating directly or indirectly to the following: Hsu's employment with Cadence, the cessation of Hsu's employment with Cadence, any wrongful termination of Hsu, any age or race discrimination by Cadence with respect to Hsu, any anti-competitive activity or unfair competition or trade secret misappropriation by Cadence, Hsu or [Avant!] with respect to Cadence, Hsu or [Avant!] . . . or any other actions taken by Cadence with respect to Hsu or [Avant!] or by Hsu or [Avant!] with respect to Cadence.

Confidential Settlement Agreement, Declaration of Eric Brill in Support of Avant!'s Opposition, Ex. H, pp. 7-8 and

Reply Memorandum of Cadence, Ex. D, pp. 7-8 (hereafter cited as "Agreement, p. __"). The Agreement also contained a California Civil Code section 1542 waiver and further provided that in connection with such waiver the parties

> or their attorneys or agents may discover claims or facts in addition to or different from those which they now know or believe to exist . . . but that it is their intention hereby fully, finally and forever to settle and release all of the claims, matters, disputes and differences known or unknown, suspected or unsuspected, which now exist, may exist, or heretofore may have existed against each other in connection with the Released Matters.

Agreement, p. 8.

Following execution of the Agreement, Hsu took time off and did not return to Avant! until July 5, 1994 pursuant to the terms of the Agreement. In late 1994, Cadence employee Mitsuru Igusa ("Igusa") left Cadence. Cadence alleges Igusa left to go work for Avant! and took trade secrets and other confidential information with him.[3] Igusa, however, never began working at Avant!. In November 1994, the Santa Clara County District Attorney searched Igusa's house and found certain files in his possession which contained Cadence source code. Accordingly, Avant! decided not to hire Igusa following

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[3] Cadence also alleges that Avant! recruited Igusa thereby breaching the Agreement.

the hands-off period. Cadence alleges, however, that even though Igusa was not a formal employee of Avant! he was still working for Avant! and providing employees of Avant! with valuable Cadence source code.

During 1995 Cadence continued to investigate whether Igusa and other employees of Cadence were providing trade secrets to Avant!. Cadence alleges that Eric Cheng, who also left Cadence to work for Avant!, created a file before he left Cadence which contained various files belonging to Cadence and took them to Avant!. Cadence also alleges that secret payments were being made by Avant! executives in exchange for valuable Cadence information. Thus, in December 1995 Cadence filed its complaint against Avant! and various Avant! employees alleging trade secret misappropriation and copyright infringement. Cadence also filed its request for a preliminary injunction seeking to enjoin the sale of any Avant! product which contains Cadence source code.[4]

In addition to disputing whether any Avant! products contain Cadence Source code or code derived therefrom, the parties dispute the scope of the Agreement entered into between the parties on June 6, 1994. Avant! asserts

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[4] Cadence specifically sought to enjoin the sale of Avant!'s ArcCell, ArcCell XO and DSO products. At the hearing on the motion for a preliminary injunction, Avant! asserted that it no longer makes ArcCell or ArcCell XO but now makes improved versions of those products known as Aquarius XO and Aquarius XO 2.0. Avant! further represented that it no longer uses DSO in any product it manufactures.

that Cadence released all claims for injunctive relief related to source code created before execution of the Agreement. Thus, Avant! asserts that it has a right, under the terms of the Agreement, to continued use of any trade secrets allegedly acquired before the Agreement. Avant! reasons that because Cadence released all claims of trade secret misappropriation on June 6, 1994 any such claims related to trade secrets that were in the possession of Avant! as of that date are barred. Thus, the creation or sale of any product containing code or based on code acquired before the date of the release may not be enjoined.

Cadence asserts that it released only use of any acquired trade secrets as of the date of the release. Thus, under Cadence's argument, any use of trade secrets after the date of the release gives rise to new causes of action and entitles Cadence to sue Avant! based on the use regardless of when the trade secrets were acquired. Cadence argues that to interpret the Agreement any other way would mean that Cadence gave Avant! an unpaid, royalty-free license to Cadence's source code. Thus, Cadence asserts that it is within its rights to sue Avant! for trade secret misappropriation and copyright infringement based on later uses of previously acquired protected information.

II. LEGAL STANDARD

To obtain a preliminary injunction a party must demonstrate either "(1) a likelihood of success on the merits and the possibility of irreparable injury, or (2) the existence of serious questions going to the merits and the balance of hardships tipping in [the movant's] favor." Diamontiney

v. Borg, 918 F.2d 793, 795 (9th Cir. 1990). These two tests represent a "continuum of equitable discretion whereby the greater the relative hardship to the moving party, the less probability of success must be shown." Regents of Univ. Of Calif. v. ABC, Inc., 747 F.2d 511, 514 (9th Cir. 1984). The "balance of harm" evaluation should precede the "likelihood of success analysis" because until the balance of harm has been evaluated the court cannot know how strong and substantial the plaintiff's showing of the likelihood of success must be. See Alaska v. Native Village of Venetie, 856 F.2d 1384, 1389 (9th Cir. 1988). In California, to show irreparable injury a party must normally demonstrate that damages are inadequate. Cal. Civ. Code § 3422; see also Sampson v. Murray, 415 U.S. 61, 90 (1974).

A showing of a likelihood of success on the merits of a copyright infringement claim, however, raises a presumption of irreparable injury. Triad Systems Corp. v. Southeastern Express Co., 64 F.3d 1330, 1335 (9th Cir. 1995). Similarly, where a party can show an intention by another to make continued use of a trade secret, irreparable harm is generally presumed even though the secret itself has already been disclosed. Campbell Soup Co. v. ConAgra Inc., 977 F.2d 86, 92-93 (3rd Cir. 1992). However, if the defendant is not revealing the trade secret to third parties and can adequately compensate plaintiff for any harm in money damages, the plaintiff may not be able to show irreparable damages.

The harmful effect that an injunction would have on the public and third parties may also be considered. Caribbe-

an Marine Services Co. v. Baldridge, 844 F.2d 668, 674 (9th Cir. 1988).

III. ANALYSIS

A. Scope of June 6, 1994 Confidential Settlement Agreement and Mutual Release

The plain language of the Agreement, which is an integrated agreement, shows that the parties released claims "which they may have against each other at the time of the execution of this Agreement." Agreement, p. 7 (emphasis added). Avant! relies heavily on accounts of the negotiations leading up to the settlement and the draft complaint that was sent to Avant!'s attorneys which alleged various trade secret misappropriation claims to show that the parties' intent was to release all claims, including those arising in the future, related to source code in Avant!'s possession at the time of the execution of the Agreement. Based on the declaration of Eric Brill, who represented Hsu during the settlement negotiations, Avant! claims it is clear that the intent of the parties was to release future claims of trade secret misappropriation or continued use of any trade secrets currently in Avant!'s possession. Avant! also relies on the draft complaint which alleged trade secret misappropriation and asserts that it is unreasonable to conclude that Avant! would not have bargained to release the claims that were the subject of the draft complaint.

However, the integration clause of the Agreement specifically provides: "This Agreement sets forth the entire agreement between the Parties and . . . fully supersedes any and all prior agreements or understandings

between the Parties . . ." Agreement, p. 9. The language of the Agreement plainly shows that it covers only claims existing at the time of its execution and does not release claims which arose after the Agreement had been executed. Furthermore, despite Avant!'s reliance on the draft complaint to show what claims were released, the draft complaint is not incorporated into the Agreement in any way. Without such incorporation into the integrated Agreement, the draft complaint cannot be relied on to show what claims Cadence released; only the plain language of the Agreement itself shows the claims the parties released.

Thus, the real issue is what claims existed at the time of execution of the Agreement. The Uniform Trade Secrets Act ("UTSA") provides that "[a]n action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim." Cal. Civ. Code § 3426.6. Thus, Avant! argues that, even assuming it had misappropriated Cadence's trade secrets prior to the Agreement, because Cadence released Avant! from liability for any claims "arising out of trade secret misappropriation" prior to June 6, 1994, Cadence cannot now sue for that claim which existed as of June 6, 1994. Because there is only a single claim, Avant! reasons that there is only a single claim for purposes of construing a release of trade secret misappropriation claims and that once a party releases another from liability for trade secret misappropriation any continued use of already misappropriated trade secrets has also been released. Avant! also relies on Monolith

Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp., 407 F.2d 288, 293 (9th Cir. 1969), for the proposition that trade secret misappropriation is not a continuing tort and that the cause of action arises only once. However, Monolith was a statute of limitations case. Simply because the statute begins running on a certain date does not mean that a release of claims bars any future claims that are within the statute of limitations period. Compare Intermedics, Inc. v. Ventritex, Inc. ("Intermedics I"), 804 F. Supp. 35, 39 (N.D. Cal. 1992) with Intermedics, Inc. v. Ventritex, Inc. ("Intermedics II"), 822 F. Supp. 634, 652 (N.D. Cal. 1993). Thus, while Cadence clearly released any trade secret misappropriation claims for the disclosure and use of trade secrets occurring before the execution of the Agreement, it did not release such claims for either further disclosure or use following the date of the release as long as any claim is asserted within the three year statute of limitations.

In Intermedics I defendant argued that plaintiff's trade secret misappropriation claims were barred by res judicata because plaintiff could have litigated the claims to final judgment in an earlier lawsuit involving the same trade secrets which plaintiff and defendant had settled resulting in plaintiff dismissing the previous action with prejudice. Intermedics I, 804 F. Supp. at 39. The court held that res judicata did not bar plaintiff's claims where the conduct plaintiff complained of occurred after the dismissal, on April 10, 1986, of the previous action. Id. at 42-43. However, the court did hold that the statute of limitations began to run when the plaintiffs discovered or should have discovered the initial misappropriation which the court concluded would have occurred during an audit

conducted in connection with the original lawsuit in March 1986. Id. at 44.[5]

Then in Intermedics II the court, after a jury determined that trade secrets were disclosed during the audit, held that the statute of limitations barred plaintiff's claims because the statute had begun to run in March 1986 (following the audit) and the current lawsuit had not been filed until 1990. Intermedics II, 822 F. Supp. at 642-43. Thus, while res judicata would not bar claims based on the same trade secrets that were the subject of a previous action where the conduct occurred after the termination of the previous action, the statute of limitations will bar such claims.

As the court pointed out in Intermedics I: "It is far from clear to us that it is analytically reliable to import, wholesale, into our thinking about res judicata the notions that courts have developed for the different purpose of resolving statute of limitations issues." Intermedics I, 804 F. Supp. at 42. The same reasoning applies in the context of general releases versus statute of limitations analysis. A general release is entered for the purpose of settling

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[5] The court determined that plaintiff should have discovered the disclosure during the audit and thus held that if defendants could establish that a trade secret was in fact disclosed in the documents produced during the audit that defendants would be entitled to prevail on their motion for summary judgment with respect to that trade secret on statute of limitations grounds. Intermedics I, 804 F. Supp. at 44. Defendants' renewed motion for summary judgment following the jury trial is the subject of the Intermedics II case.

claims between parties at a certain point in time and resolving a current conflict between two or more parties. The parties enter the agreement and release claims to avoid litigation or continued litigation of the claims. That purpose is different from the reason statutes of limitation exist. See Intermedics I, 804 F. Supp. at 43 ("the 'fundamental purpose' of the statute of limitations 'is to protect potential defendants by affording them an opportunity to gather evidence while facts are still fresh.'" (internal citations omitted)).

Similarly, in Intermedics II the court, in explaining the propriety of having the statute of limitations begin to run with the first misappropriation of a trade secret of which a defendant becomes aware, used an example that illustrates the different purposes achieved by a release and the statute of limitations.

> In the first scenario, the defendant first breaches a duty of confidence by misappropriating a given trade secret in a way that apparently would cause relatively little economic harm . . . thus giving the plaintiff little real economic incentive to sue, but later that same defendant misappropriates that same trade secret again, this second time in a way that obviously would cause huge economic harm to plaintiff . . .
>
> . . .
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> . . . the statute of limitations in this first scenario would begin to run as soon as plaintiff discovered, or by the exercise of reason-

> able diligence should have discovered, the first misappropriation of the one trade secret in issue, even though that first misappropriation was relatively inconsequential and, by itself, would not appear to justify the cost of suing, and even though the second, later misappropriation was a separate act, was committed in relation to a different product, was a thousand fold more damaging, and was the only act of misappropriation that obviously and directly justified instituting litigation.

Intermedics II, 822 F. Supp. at 652 (emphasis in original). Thus, once a plaintiff is put on notice of a misappropriation, no matter now insignificant, the statute of limitations begins to run. This comports with the purpose of a statute of limitations and results in fairness to potential defendants. However, it dies not follow that a plaintiff who releases a defendant from liability for the first misappropriation thereby releases a defendant from liability for all future misappropriations still occurring within the statute of limitations. A plaintiff has no way of knowing the significance of the impact on its business of future misappropriations. Accordingly, it does not make sense that a plaintiff would release a defendant from liability for potentially damaging conduct which has not yet occurred, even though a plaintiff may be on notice that the statute has begun to run.

Moreover, in a case similar to this case, the Second Circuit held that a release shielded defendants from liability for pre-release trade secret misappropriation but not from post-release use of the same trade secrets.

Remington Rand Corp. v. Amsterdam-Rotterdam Bank, N.V., 68 F.3d 1478, 1485 (2nd Cir. 1995). In that case, plaintiff sued various banks that had been involved in the purchase of plaintiff's subsidiary alleging that the banks had participated in the continued use of plaintiff's trade secrets following a judgment against the subsidiary in an earlier action. Id. at 1482. During the course of the earlier action Remington and the Banks had entered a settlement and release which provided that Remington relinquished "all claims and causes of action whatsoever, which Remington . . . ever had, now has, or hereafter may have against the Banks by reason of any matter whatsoever from the beginning of time to the date of this release."[6] Id. at 1483. The court held that the Banks could be liable for post-release conduct stating:

> The Banks' position presupposes that the Banks committed no acts subsequent to the releases upon which their liability could be predicated. Remington contends that Banks acted in complicity with BSI in a continuing wrongful use of Remington's trade secrets from June 1981 to the time of the complaint. Although the releases shield the Banks from liability for any conduct through their effective dates, they do not protect the Banks

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[6] Remington and the Banks had entered the release related to various accounts receivable that were the subject of dispute between Remington, its subsidiaries and the Banks. Remington Rand Corp., 68 F.3d at 1481-82.

> from liability arising from any subsequent wrongful conduct.

Id. at 1485. Thus, this case, like Remington Rand Corp., requires a finding that a claim of trade secret misappropriation based on post-release use of trade secrets is not barred by the Agreement.

Avant! further reasons that because the trade secret claims are barred, any reformulation of the same claims is also barred thereby asserting that Cadence's copyright infringement claims are similarly barred by the release. Avant! cites Press Mach. Corp. v. Smith R.P.M. Corp., 727 F.2d 781, 785 (8th Cir. 1984) for this proposition. However, as a preliminary matter, because the trade secret claims are not barred by the Agreement, any copyright infringement claims would not be barred by the Agreement.[7] Furthermore, in Press Mach. Corp. the defendant basically had paid for a license in the settlement agreement and therefore the court held that a subsequent claim of patent infringement based on the same trade secrets which were the subject of the license was barred based on the agreement. Id. at 783. Thus, the case is factually distinguishable from the case at hand.

Accordingly, the court finds that the Agreement does not bar Cadence's claims of trade secret misappropriation or copyright infringement based on source code acquired

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[7] Moreover, unlike trade secret misappropriation in the statute of limitations context, each act of copyright infringement is a distinct harm which gives rise to independent relief. Roley v. New World Pictures, 19 F.3d 479, 481 (9th Cir. 1994).

prior to the execution of the Agreement but utilized thereafter.

B. Balance of Hardships

The balance of harm from the granting of a preliminary injunction tilts heavily in Avant!'s favor. Avant! does not appear to be sharing Cadence's alleged protected information with any third party. Therefore, it would appear that any harm to Cadence could, to a large extent, be compensated by money damages. Further, place and route products account for more than 60% of Avant!'s income. A preliminary injunction would seriously jeopardize Avant!'s ability to survive as a relatively new company which invested significant time and resources in the development of its products prior to the time that Cadence initiated its lawsuit.

C. Irreparable Injury

Although a showing of likelihood of success on the merits of copyright infringement and misappropriation of trade secret claims raises a presumption of irreparable injury, such a showing does not require such a finding. As previously noted, Avant! does not appear to be sharing Cadence's alleged protected information with any third party. Therefore, Cadence is not at risk of a wide distribution of that information. Cadence's claim of lost sales of other products and services would seem to be quantifiable. Other claims of loss of reputation or position would appear to be somewhat speculative, particularly given Cadence's established position in the marketplace.

An injunction would also impact Avant!'s customers but the evidence does not suggest that such impact results in irreparable injury.

D. Use by Avant! of Cadence's Pre-Release Code

Cadence has established that its pre-release[8] framework source code is protected as copyrighted and as trade secret. Further, the evidence establishes that Avant! copied some of that code. Therefore, the question arises as to whether the clean room procedures Avant! subsequently utilized insured that Avant! wrote its code and developed its products without taking advantage of any access it had to Cadence's code. Based upon the evidence presented to date, the court concludes that Cadence will likely prevail in showing that Avant!'s clean room procedures were inadequate. Although Avant! had an independent expert examine portions of code identified by Cadence and rewrite or delete any that appeared similar to Cadence's, this does not appear to have been sufficient. Avant! still was able to take advantage of its knowledge of the functions within Cadence's code and the basic structure of the Cadence program itself. Use of Cadence's code to develop clean room specifications also raises serious questions, although arguably Avant! needed to look at the code in order to carry out the terms of the release and avoid further liability.

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[8] By pre-release code the court is referring to code allegedly acquired by Avant! before the execution of the release.

Although the court finds that Cadence will likely prevail on its claim that the clean room procedures were not adequate, the court does not find Avant!'s position that it independently rewrote any similar portion of its code to be totally void of merit. Further, in light of the hardship to Avant! which would result from the issuance of an injunction and the reasonable likelihood that Cadence could be adequately compensated at trial for any wrongful conduct by Avant!, a preliminary injunction precluding Avant! from using its existing source code which was allegedly derived or copied from Cadence's framework code is not appropriate.

E. Use of Cadence's VSIZE in Avant!'s DSO

Avant! stated at oral argument that its current products no longer use a DSO module and, therefore, an injunction prohibiting its use would not affect the production and sale of its current products. September 10, 1996 hearing transcript, pp. 71, 73, 90 and 91. Cadence first learned that Avant! allegedly no longer uses the DSO module at the hearing on the motion and still wants an injunction prohibiting Avant! use of such a module.

[_____]

[_____]

F. Global and Detail Router and Placement Codes

Although questions have been raised concerning Avant!'s access to and use of Cadence's global and detail router codes and placement program in connection with the development of products, the court is not satisfied that the evidence is persuasive enough to justify a preliminary

injunction restraining production or sale of Avant!'s products. Cadence relies heavily on suspicious conduct related to Igusa's departure from Cadence, the discovery of material found in his possession, and his personal and economic relationship with Avant! principals. There is no question but that Cadence has raised issues that will deserve attention at a full trial on the merits. However, Avant! apparently never hired Igusa nor is the evidence persuasive that Cadence code found in Igusa's possession was utilized by Avant! in the development of its products.

The evidence does support the granting of an injunction barring use by Avant! of the Cadence source code found in Igusa's possession. The code appears to have been copied by Igusa. However, the court is not satisfied that the evidence of Avant!'s actual use of any such protected information is sufficient to justify enjoining Avant! from producing or selling any of its products, particularly given the balance of hardships in Avant!'s favor.

IV. ORDER

Based on the foregoing, the court issues the following preliminary injunction:

IT IS HEREBY ORDERED THAT Defendant Avant!, Inc., its officers, agents, servants, employees and attorneys and any and all persons in active concert with them who receive actual notice of this order, by personal service or otherwise, be and are hereby restrained and enjoined, pending trial, from:

1. Directly or indirectly using, selling or transferring Cadence's VSize source code in any form or any product developed with its use and specifically from any further

selling or transferring of any product containing Avant!'s DSO module or any modules derived therefrom;

2. Directly or indirectly using, selling or transferring any Cadence source code or code derived therefrom found in the possession of Mitsuru Igusa;

3. Possessing or using any copies, in any medium including printed matter and electronic media, of Cadence's global router (GRoute), local router (FRoute), variable die-size product (VSize), database management user interface and other source code (Design Framework II) and placement product (QPlace). However, the court does not find at this time sufficient evidence to enjoin pursuant to this paragraph 3 Avant!'s production or sale of its ArcCell or ArcCell XO products except for the DSO module. This paragraph 3 also does not preclude Avant! from possessing or using the framework code developed in its purported clean room process. Further, the court finds insufficient evidence to enjoin the production and sale of Avant!'s Aquarius XO and Aquarius XO 2.0 to the extent that they contain essentially the same source codes as do Avant!'s prior products. However, the court makes no finding as to the source codes utilized in the Aquarius products, as those products were not in existence at the time of plaintiff's preliminary injunction application and, therefore, plaintiff has not had the opportunity to do discovery with respect to them.

4. Plaintiff must post a bond in the amount of $50,000 as a condition of this injunction for the payment of such damages as may be incurred or suffered by defendant Avant! if it be ultimately found that defendant has been wrongfully enjoined or restrained. Either party may

notice a motion to request the court to reconsider the amount of the required bond.

DATED: 3/18/97/s/_____
RONALD M. WHYTE
United States District Judge

APPENDIX C
Judgment of the Ninth Circuit
Filed December 1, 1997

JUDGMENT

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

COSTS TAXED

NO. 97-15571
CT/AG#: CV-95-20828-RMW(PVT)

CADENCE DESIGN SYSTEMS, INC., a Delaware corporation

Plaintiff - Appellant

v.

AVANT! CORPORATION, formerly Arcsys Inc., a Delaware corporation; GERALD HSU, an individual; MITSURU IGUSA, an individual; CHIH-LIANG CHENG, an individual

Defendants - Appellees

APPEAL FROM the Untied States District Court for the Northern District of California (San Jose).

THIS CAUSE came on to be heard on the Transcript of the Record from the United States District Court for the Northern District of California (San Jose) and was duly submitted.

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court, that the judgment of the said District Court in this cause be, and hereby is REVERSED and REMANDED.

Filed and entered September 23, 1997

[Stamped: Mandate Issued December 1, 1997]

APPENDIX D

Ninth Circuit Denial of Petition for Rehearing
Filed November 21, 1997

NOT FOR PUBLICATION
UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

CADENCE DESIGN SYSTEMS, INC. a Delaware corporation,	No. 97-15571 D.C. No. CV-95-20828-RMW
Plaintiff-Appellant,	ORDER
v.	
AVANT! CORPORATION, formerly Arcsys, Inc., a Delaware corporation; GERALD HSU, an individual; MITSURU IGUSA, an individual; CHIH-LIANG CHENG, an individual,	
Defendants-Appellees,	

Before: Alfred T. Goodwin and Sidney R. Thomas, Circuit Judges, and Dean D. Pregerson,*** U.S. District Judge.

The panel has voted to deny the petition for rehearing and to reject the suggestion for rehearing en banc.

***Honorable Dean D. Pregerson, U.S. District Judge for Central California, sitting by designation.

The full court has been advised of the suggestion for an en banc rehearing, and no judge of the court has requested a vote on the suggestion for rehearing en banc. Fed. R. App. P. 35(b).

The petition for rehearing is denied and the suggestion for rehearing en banc is rejected.

[Stamped: Filed Nov. 21, 1997]